

State of California

BOARD OF
EQUALIZATION

Board Members

- Five members of the BOE
- Elected officials oversee the BOE
- Four district elected members
- One elected at large, the State Controller

- BOE revenues for FY 00-01 totaled \$41.25 Billion
- Represent nearly 33% of annual state revenue for essential funding for local government

BOARD OF EQUALIZATION



- BOE administers 30 tax and fee programs
- Over one million businesses registered with BOE

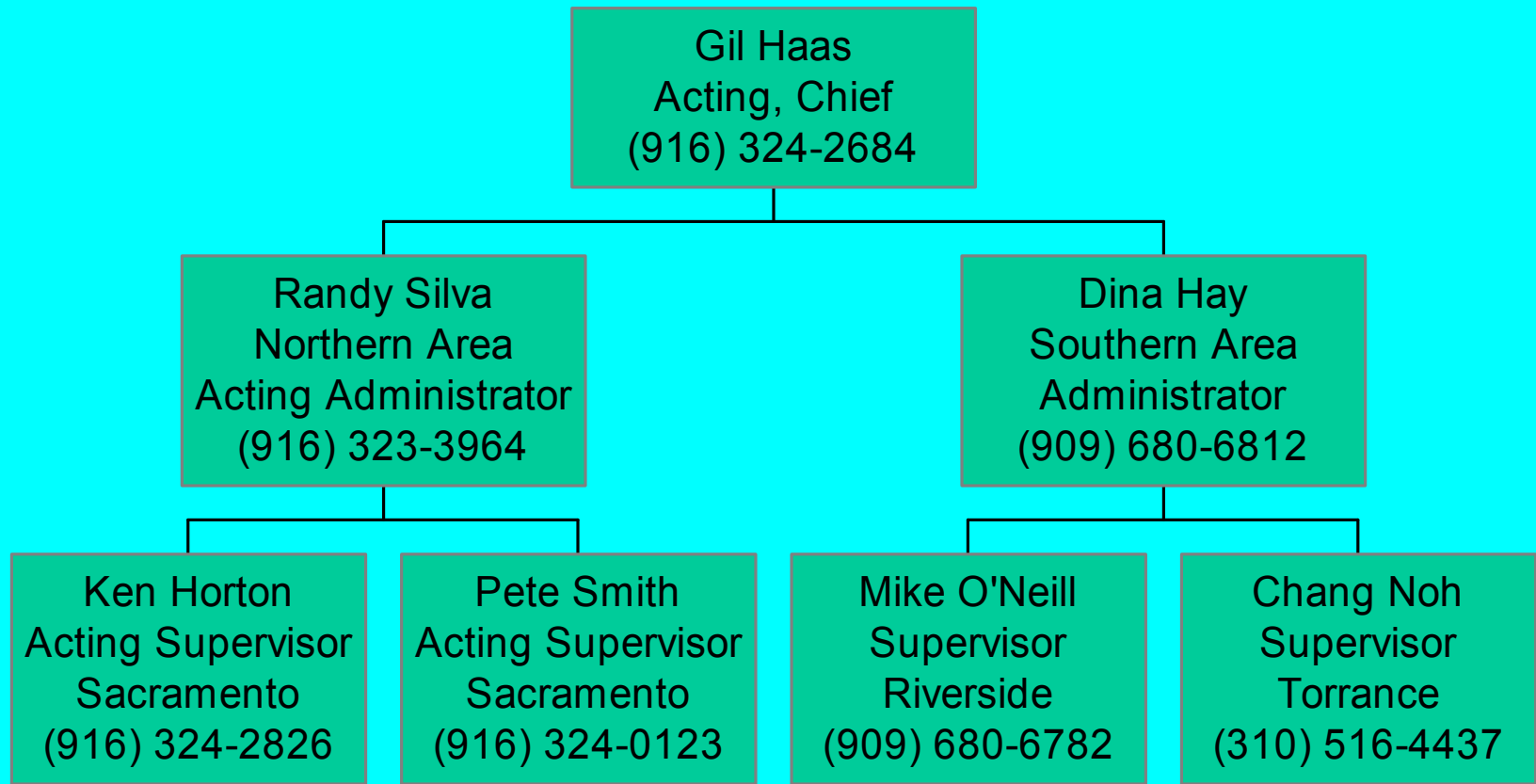
History of Board's Investigations Division

- Since 1989, some type of investigations section existed.
- Beginning in July 1995, the Board had three separate units conducting criminal tax evasion investigations:
 - Cigarette Tax Enforcement Team (CTET)
 - Special Investigation Section (SIS)
 - Fuel Taxes Investigations & Enforcement Section (FTIES)
- As of March 1, 2000, the three units merged and became known as the Investigations Division, investigating all tax and fee programs administered by the Board.

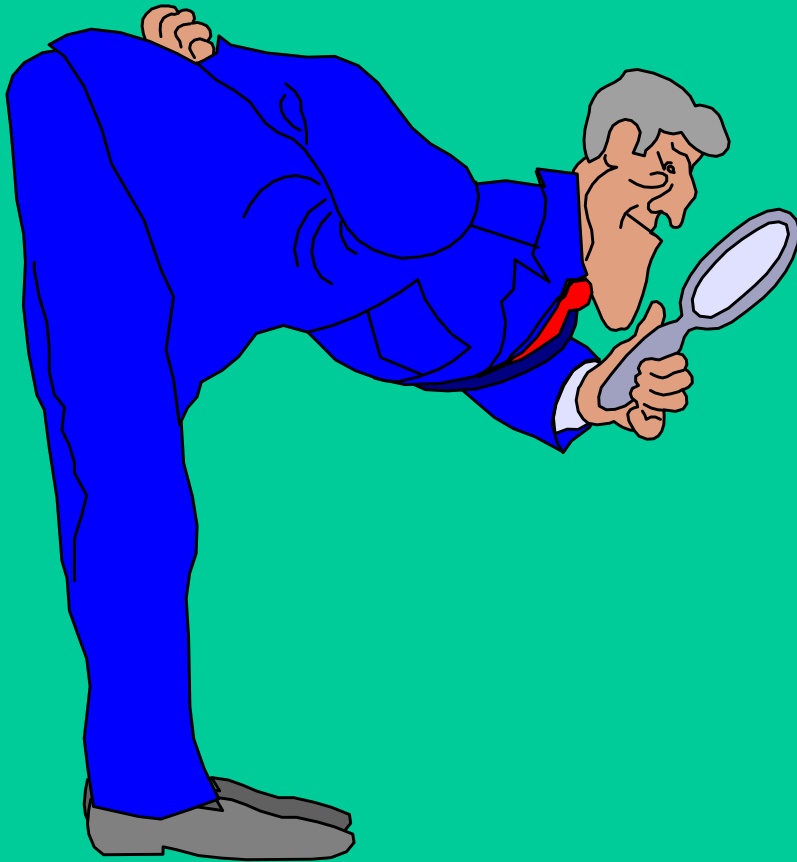
Mission Statement

- The mission of the Investigations Division is to identify, investigate and effect prosecutions of persons suspected of criminal tax evasion for Board administered tax programs
- The Investigations Division does not deal with Internal Investigations

Investigations Division



What does Investigations Division Do?



- Investigate criminal felony violations under the programs we administer
- Misdemeanors are investigated in connection with felony violations
- Felony amount is \$25,000 or greater in tax in any 12-consecutive months

What does Investigations Division Do? (cont.)



- Investigations Division is not interested in persons that underpay their taxes for unintentional reasons.
- There must be clear indication of intent and knowledge.

Underground Economy



- Cash driven system, which includes, broadly speaking, and any economic activity that is unreported, including both legal and illegal activity
- Activity in the underground economy strikes at the basic fairness of our tax system

Board's Emphasis

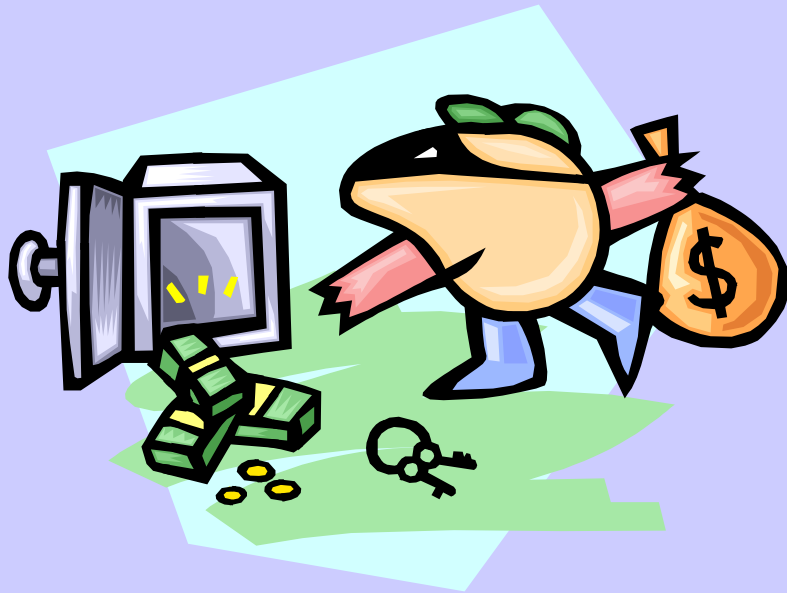


- Predominately investigates legal activity as opposed to illegal activity
- Falsifying tax returns
- Not filing tax returns
- Fraudulent claim for refunds
- Counterfeit cigarette tax stamps

Board's Emphasis

- Of particular concern is that those businesses who evade taxes operate at an unfair advantage, pushing legitimate enterprises which cannot compete either :
 - Out of business
 - Out of state
 - Underground

Intentional Underpayment



- Collect, but not remit the tax
- Unfairly sell for less money than the honest competitor by as much as up to the tax rate.

Intentional Underpayment



- It robs you and me of a number of services and forces honest businesses and individuals to pay a disproportionate amount of taxes because those operating in the underground economy are not paying their fair share.

How Investigations Division receives complaints, leads etc.

- The Investigations Division receives information about suspected violations of the tax laws from a variety of sources

How leads are received

- Telephone
- Internet
- Law enforcement agencies
- Current and former employees of the subject
- Letters from taxpayers/concerned citizens
- Anonymous letters
- BOE district offices
- BOE program areas

What happens when a complaint, lead or tip is received?

- All complaints, leads or tips received are logged in and assigned a complaint number
- Review and forward to appropriate agency if complaint is not a BOE tax or fee program
- Review internal BOE records to determine what permits or licenses are maintained by subject.
- Contact complainant if possible to gather additional information
- Refer complaint to appropriate investigative team, district, or program area

How a complaint becomes a case

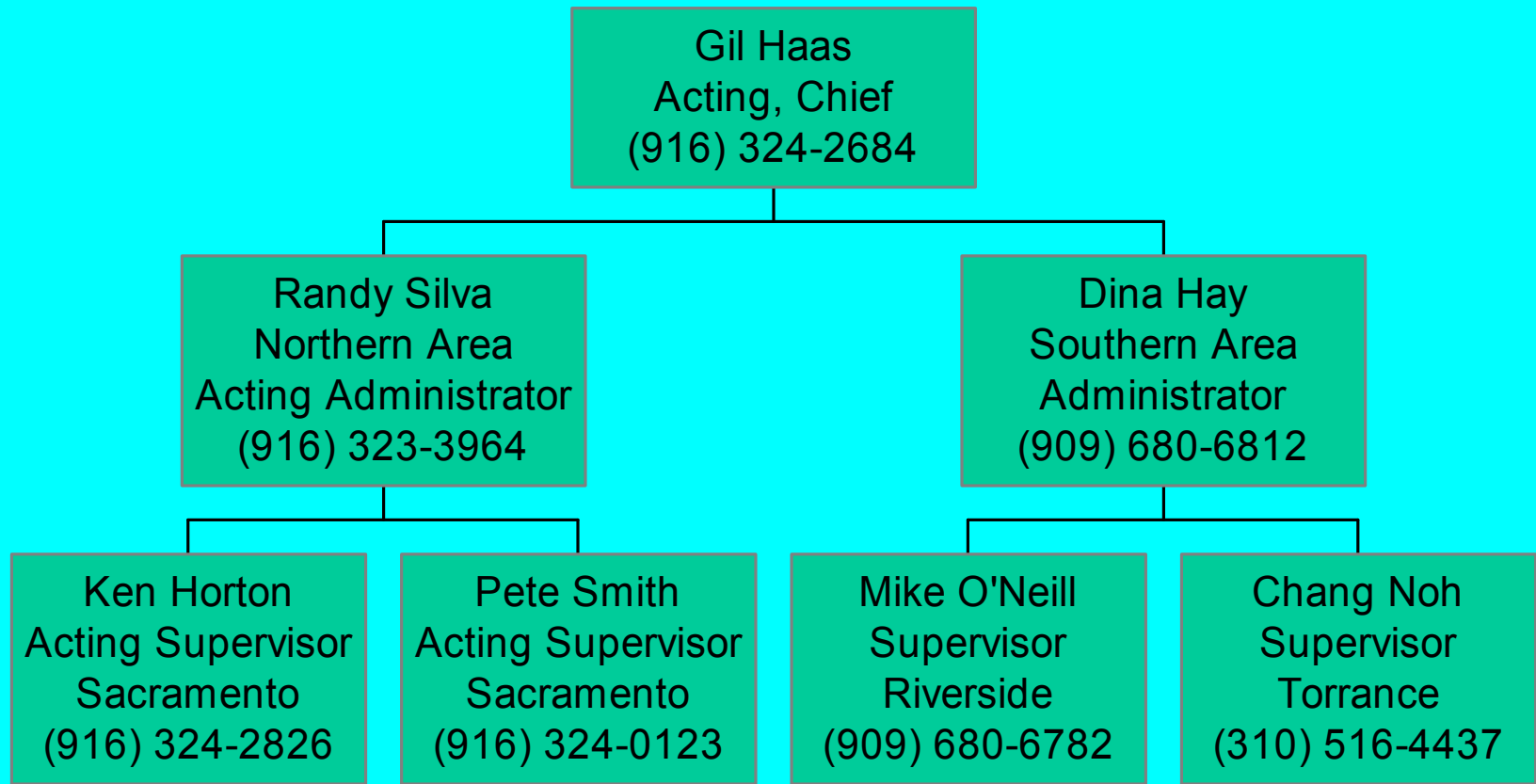
- Examination of complaint by investigator supports the allegations
- The subject appears to be evading tax at a felony level

Working with Law Enforcement



- FBI
- ATF
- DOJ
- CHP
- DA Investigators
- Sheriff's Office
- Local Police

Investigations Division

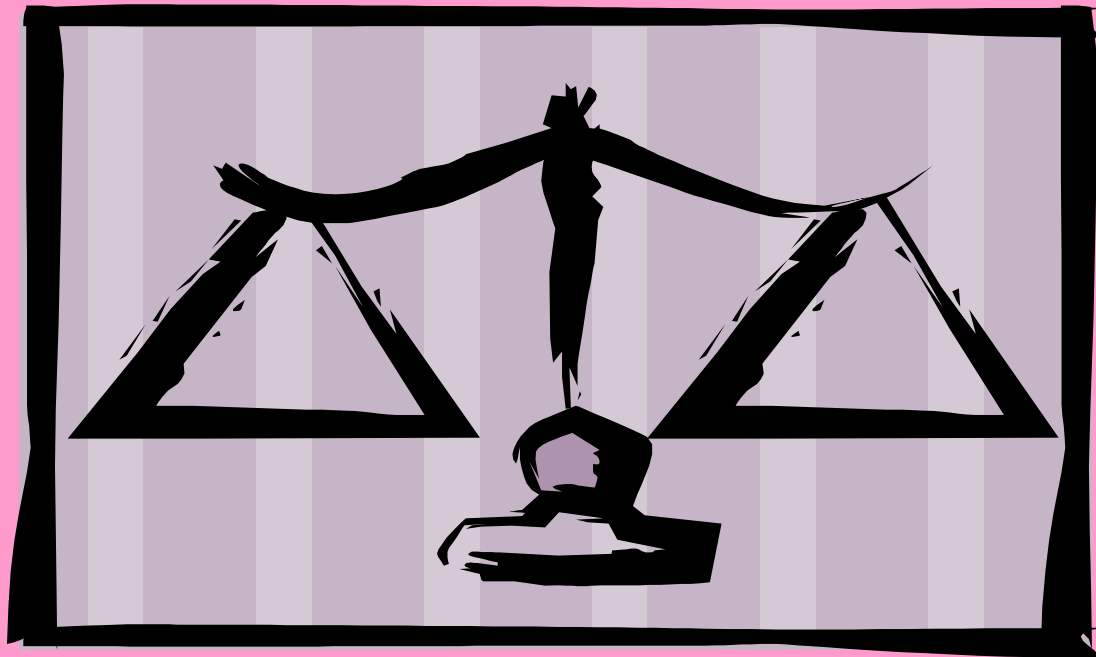


Results

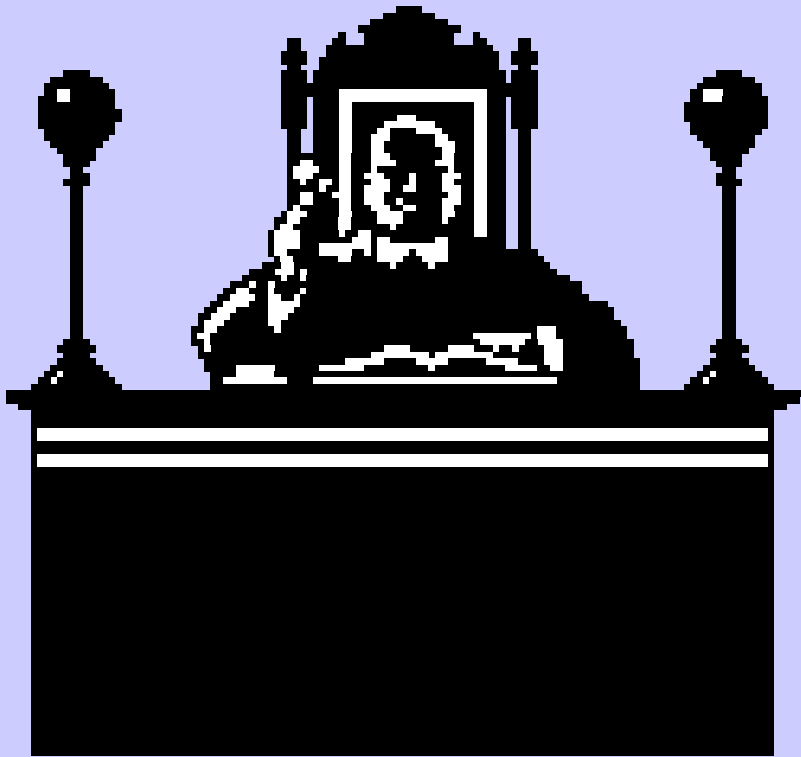


- Over 40 convictions of felony tax evasion
- Millions of dollars in assessments

Cases



Service Station



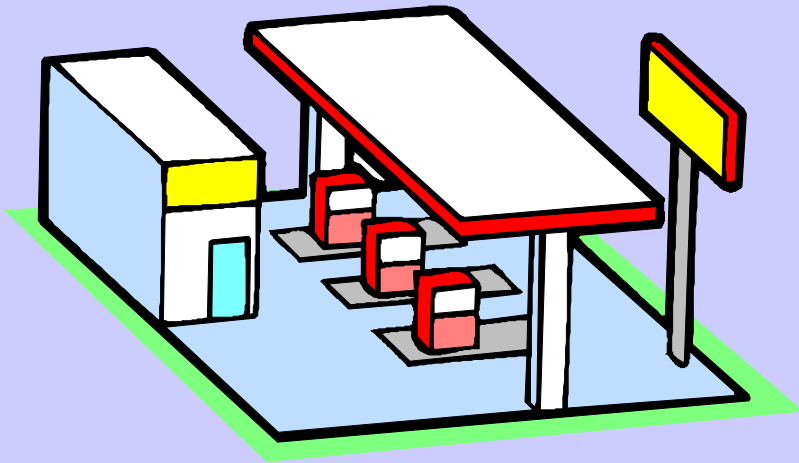
- Felony Fuel Taxes and Sales Taxes
- Southern California
- Conspiracy with Arizona Vendor
- Evaded over \$ 500,000 in Fuel and Sales Tax

Service Station (cont.)



- Arizona fuel vendor delivers approximately 3-4 loads per week
- Each load consists of 7,500 gallons
- Each load evades \$1,350 in state excise tax and approximately \$ 525 in pre-pay sales tax
- Corresponding sales of this fuel never reported

Service station (cont.)



- Approx. 2 deliveries per week from Cal. Suppliers
- These amounts reported
- Total purchases and sales significantly underreported

Tobacco Case



- Father & Son business
- Purchased tobacco products from outside the state
- Purchases from outside state never reported
- Amount evaded in excess of \$2.5 Million

Counterfeit Cigarette Stamps



- Search warrant served on 29 locations
- Over 60,000 cartons of cigarettes seized
- Thousands of counterfeit stamps seized

Fraudulent Claim for Refund



- Farmer exemption certificate used
- Diesel fuel purchased in quantities of 500 gallons
- Individual owner service station
- Installed 500 gallon tank into a pick up truck
- Drove daily to vendor to pick up diesel fuel
- Sold diesel fuel at his service station

Underreported Sales Tax



- Retailer of Computers and computer parts
- Two sets of books and records
- Sales tax evaded in excess of \$ 50,000 evaded in a 9 month period
- Within three days of the search warrant being executed, taxpayer submitted amended returns
- Figures on amended returns match the second set of books and records